



COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
APPROVED SUMMARIZED MINUTES

February 13, 2014

4:00 p.m.

City Hall, Kiva Conference Room
3939 N. Drinkwater Blvd, Scottsdale, AZ 85251

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- PRESENT:** Mayor W.J. "Jim" Lane
Councilman Dennis Robbins
Councilwoman Linda Milhaven – Telephonic until 5:44 p.m.
- STAFF:** Paul T. Katsenes, Executive Director, Community & Economic Development
Danielle Casey, Director, Economic Development
Kelly Ward, Sr. Assistant City Attorney
- GUESTS:** Dr. Ioanna T. Morfessis, President – IO.INC

Call to Order/Roll Call

Mayor Lane called the regular meeting of the Council Subcommittee on Economic Development to order at 4:00 p.m. A formal roll call confirmed members present as stated above, noting the presence of a quorum.

1. Approval of January 9, 2014 Minutes

COUNCILMAN ROBBINS MOVED TO APPROVE THE AMENDED MINUTES OF THE JANUARY 9, 2014 MEETING OF THE COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT AS PRESENTED. COUNCILWOMAN MILHAVEN SECONDED. THE MOTION CARRIED UNANIMOUSLY BY A VOTE OF THREE (3) TO ZERO (0).

2. Economic Development Strategic Plan Framework Update

Dr. Ioanna T. Morfessis, IO.INC, provided a progress report on the Economic Development Strategic Plan Framework. The framework sets an ambitious but attainable roadmap for how the City of Scottsdale can strengthen its many inherent assets while ensuring a prosperous economy in the 21st Century. The process of developing the framework is highly collaborative, and uses time tested methodology. Currently, IO.INC staff is engaged in a comprehensive SWOT analysis of available data, which will be used to explore how Scottsdale, within the context of Phoenix and the state of Arizona, competes in the global economy. The goal is to identify the strengths and opportunities for Scottsdale, considering its relative competitive position. Once it is clear what the highest and best impact targeted sectors are for employment and economic growth, a roadmap will be developed based on that information.

Dr. Morfessis said IO.INC will bring in experts in targeted sectors to review and test its recommendations to see if they will work for Scottsdale, given its demographics and existing employment base. The team will consider important factors in determining quality of life and developing a talent pipeline, including education and training, business friendliness of a community, the nature of infrastructure, the presence of young enterprises, extent of innovation and availability of customers.

IO.INC will recommend significant actions that need to be taken to keep Scottsdale's strengths flourishing, address ways to mitigate weaknesses, and identify threats that need to be understood. The report will propose a course of action, with accountability and transparency that includes metrics and indicators for tracking progress. Scottsdale has an abundance of strengths, but lacks a sense of urgency to continue investing in economic development in a consistent way.

Dr. Morfessis stated that the global competition for talent and jobs is at an unprecedented level. Multinational corporations are expanding globally, but not all are heading to the U.S. They have many options around the world now. Other countries are producing more college graduates than the U.S. Workforce participation in America is shrinking rapidly, and the nation will need to import immigrant talent. The kinds of businesses that will find Scottsdale desirable will understand that a higher cost will be necessary to get the quality they need in their workforce. Being competitive will be an important consideration. The availability of advanced information and communications technology is a critical factor in terms of what is most important to deciding where companies locate.

Dr. Morfessis stated that Scottsdale has under invested in economic development overall. The community needs a common definition of economic development that City leadership, citizens, and community stakeholders all buy into. Scottsdale needs to better leverage tourism, and elevate the professional training and certification of staff. Without exception, every business contact she has spoken to mentioned that Mayor Lane has made a difference in improving their perception of what it means to do business in Scottsdale.

Irvine and La Jolla, California; Boulder, Colorado; Austin, Texas; Sarasota, Florida, all have desirable qualities that can be used as indicators for measuring progress in Scottsdale. The four priority sectors being targeted are bio and life sciences, advanced business services, technology and innovation, hospitality and visitor trade, and commerce. Higher education is a critical underpinning, and Scottsdale has the highest level of educational attainment of any Arizona city without a four-year degree-granting institution. The report will recommend metrics and indicators for the city as a whole and create a synthesis of information and recommend action for moving forward.

Anchor institutions like healthcare/medical research, secondary and post-secondary education are important to economic success because they are deeply embedded in the local economy. They are big producers of economic activity, and big purchasers of local goods and services. Part of the foundation could be to look at higher education differently so as to meet the talent needs of existing firms. Scottsdale does not have the land available for campuses, but universities are more agile today. The need is greatest for education in science, technology, engineering, and math and financial services. Scottsdale's demographics are aging, and the community needs a pipeline for talent that is in line with what local companies need to stay here and prosper.

Mayor Lane inquired what would it take for an educational institution to view Scottsdale as an attractive place to locate. Dr. Morfessis said it will take city representatives who can make an irrefutable case on behalf of the community and present an inviting opportunity. Councilman Robbins said he expects an output at the end of the process that will be something the community can easily grasp as a concept. Dr. Morfessis responded that IO.INC will produce a roadmap with five to eight actions that need to be taken. It will be available for general consumption, and explain what the plan is, what is in it for residents, and how they can measure its success.

3. Follow-up Presentation for Los Arcos Redevelopment Area

Danielle Casey, Economic Development Director, said the Los Arcos Redevelopment Area (LARA) was approved in 1996, and adopted for a 20-year period. A single Central Business District overlay was designated in 2010. The City Council resolution that created LARA talked about aging structures, fragmented ownership of small properties, and infrastructure needs that hindered redevelopment.

If the City purchases property, it can sell, lease, or transfer property for public use in accordance with the redevelopment plan. This requires public advertising for 30 days. The redevelopment proposal process is easier than a fully formal option. Mayor Lane inquired whether the redevelopment agreement distinguishes between purchases for public use versus public benefit. Kelly Ward explained that the standards are similar, but the statute suggests a more generous look at the gift clause than the Charter might require. Mayor Lane said the City buying property and selling it to someone else could be considered beneficial under the definition of public benefit because it builds a bigger tax base, which is not the same thing as public use. The City could continue to operate a site that did not conform to the redevelopment plan, but would have to demolish the aging buildings on the site if the property was not disposed for redevelopment within one year of purchase.

Ms. Casey said assemblage of properties in a redevelopment area can be accomplished in a variety of ways. The City cannot use eminent domain without a separate determination by a two-thirds vote of City Council. The property has to be critical to a redevelopment project, and the existing use must be incompatible with and cannot be otherwise worked into the existing project. The City could also work to encourage private property assemblage through policies, designs, and overlays. The state statute changed in 2006 with the passing of Prop 207, which placed additional restrictions on the taking of private property, gives increased rights for diminution in value, and addresses just compensation. There are significant rules regarding relocation and paying of legal fees. The taking of property for public use cannot include the public benefits of economic development.

Mr. Ward said that in general, the zoning laws protect existing businesses so that if development occurs pursuant to an existing zoning category and the zoning category changes, the investment expectations of business can continue to be met under the old zoning code. That business would be considered legal non-conforming; however, the grandfathered use cannot expand or change in ways that differ from the original zoning. The developers could apply for a zoning change but would have to come into compliance with whatever new zoning was there. The City could make a zoning category to legitimize their existing use and the proposed changes they were expecting.

Randy Grant said the SkySong property was zoned Planned Community (PC). The PC district was changed to accommodate the redevelopment district. The PC district requires 160 acres outside of a redevelopment designation. Redevelopment designation allows for ten-acre sites. If the designation were removed, SkySong would no longer have the protection of the ten-acre site. SkySong would be grandfathered in, but any expansions would be subject to a change. The City currently does not have a district that equates to a PC district that they would qualify for. Ms. Casey added that staff has looked at drafts of possible text amendments that would address that issue.

Ms. Casey said there are many aspects of LARA that still need additional attention. The plan outlines the goals and priorities in this area. The elements in the plan are consistent with what the statute requires for the purpose of enhancing an area that has seen economic challenges. Mayor Lane suggested creating the same kind of designation through an economic development plan, but without the complexities. Ms. Casey said state statute specifies certain

issues that have to be addressed in any redevelopment plan, because its purpose is to revitalize an area experiencing economic challenges. The elements in LARA are consistent with what statute requires.

Mayor Lane inquired whether Scottsdale would have been able to make the same arrangement with the ASU Foundation for Los Arcos without LARA. Mr. Ward responded that all of the land uses could have been accomplished without the redevelopment area. Also, the City did not use its powers of eminent domain for the purchase of the land. Mayor Lane felt the City could have made the same arrangement without the plan through zoning changes and investments. Mr. Ward agreed, though he noted that the redevelopment area designation tends to have significant community symbolism and serves as a catalyst for community action.

Councilman Robbins inquired whether the City would have lost out on anything without the plan. Erin Perrault explained that the knowledge that the City had authoritative redevelopment powers helped generate interest in bringing some projects forward such as the residential housing near the Granite Reef Senior Center, and the Lowe's on the McDowell corridor. Mayor Lane noted that powers implied through a redevelopment plan can discourage some property owners or cause them to slow down or cancel their own projects.

Mayor Lane inquired whether the City would run afoul of the definitions of use of eminent domain in the Charter if it were to use that tool to acquire property that is sold to a private developer to build a public benefit. Mr. Ward responded that in 1996, the courts gave greater latitude to the legislature to define the circumstances in which eminent domain could occur. Since then, they have tightened those circumstances significantly, making eminent domain not nearly as available for that type of scenario.

Mayor Lane said one concern is that the existing properties brought in under the redevelopment plan could face obstacles, should they want to make changes to their original design. It appears that the redevelopment plan does not offer much going forward. Ms. Casey explained that it would be much more difficult to get approval for mechanisms such as reduced setbacks and variances if the redevelopment area expired. Developers would not have the assurances they need to buy the property and move forward without a plan that spells out what is already allowed in that district. Mr. Grant said reducing the size of PC through a text amendment would apply to all of Scottsdale, whereas a redevelopment area is limited to a specific area for a specific reason. Councilman Robbins inquired whether the City could create a new district without the aspects of the redevelopment plan that are causing concern for some people. Ms. Casey agreed that staff could return with some proposals.

Ms. Casey shared some feedback the Planning Department has received from the private sector on property and market trends, transportation, business development opportunities, and suggested actions. They feel that real estate prices limit land assemblage opportunities. It is difficult to compete with investors who are chasing income from existing tenants. The challenge is to get property owners to repurpose old buildings that they are still collecting rent from. Office parking needs are increasing. The national retail market has changed. The auto dealerships will not return to the McDowell corridor because location strategies have changed. Many people will be looking for residential options in southern Scottsdale, which offers good opportunities for revitalization of those neighborhoods. The need for better transportation linkages with Tempe and Mesa via light rail or other transit options on Scottsdale Road up to McDowell Road was highlighted on several occasions. Startup companies from SkySong cannot afford to stay in southern Scottsdale, so they move elsewhere. Other suggestions to spur redevelopment included abatement of fees, additional infrastructure, updated streetscapes, and encouraging residents to improve the housing stock.

Ms. Casey reviewed three options the City could take on the Los Arcos Redevelopment Area:

- A. Allow the plan to expire.
- B. Update the plan to retain the City's ability to utilize its tools at Council's discretion.
- C. Remove the plan prior to its expiration.

Staff recommended consideration of the following potential next steps:

- A. Present the same information to the full City Council.
- B. Recommend options regarding the continuation, update or removal of the Los Arcos Redevelopment Area Designation or Redevelopment Plan.
- C. Direct staff to research more information to bring back to the Economic Development Subcommittee or to the full City Council.

Mr. Ward stated that one of the tools the redevelopment area makes available is the abatement of governmental property lease excise tax. Mayor Lane inquired whether that tool is available under the gift clause. Mr. Ward said in general, the thought is that the governmental property lease excise tax imposes a different tax structure. It is not the expenditure of public funds but an adjustment to the taxing mechanism. There are good public policy arguments both in favor of and against governmental property lease excise taxing. Although it is abatement, it typically does not relate to the gift clause analysis. Ms. Casey noted that Tempe and Phoenix have utilized this tool to a great extent in redevelopment areas in their single central business districts. The tool allows City Council to fully abate property taxes for the first eight years. Because abatement can affect school districts, some developments that have been involved in those agreements have simply made cash gifts to the school districts.

Mayor Lane said the information should be provided to the full City Council. The Subcommittee directed staff to table the action until completion of the Economic Development Strategic Plan.

4. Economic Development Report

Danielle Casey reported that Economic Development Strategic Plan is on schedule for a May 13 presentation to City Council. Stonegate Mortgage has announced a 12,000 square feet project with 90 or more local jobs. The Community Development Finance Association Annual Conference runs November 18 through November 21, 2014 in Scottsdale. The new and improved choosescottsdale.com website is now available in beta phase. The Economic Development newsletter is doing well. The Economic Development 2nd Quarter report is now available.

5. Open Call to the Public (A.R.S. §38-431.02)

None.

6. Future Agenda Items

None.

Adjournment

With no further business before the Subcommittee, the meeting adjourned at 5:59 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.